

VZCZCXYZ0001
RR RUEHWEB

DE RUEHVI #1382/01 3000936
ZNR UUUUU ZZH
R 270936Z OCT 09
FM AMEMBASSY VIENNA
TO SECSTATE WASHDC 3480

UNCLAS VIENNA 001382

SIPDIS, SENSITIVE

FOR PM/DTCC - BLUE LANTERN COORDINATOR AND EUR/CE

E.O. 12958: N/A

TAGS: [KOMC](#) [ETTC](#) [AU](#)

SUBJECT: Blue Lantern Broker Inquiry: Verifying Bona Fides Of
Michael Feinig / Diamond Airborne Sensing / CASE NO. K-1992

REF: STATE 94197

Sensitive but Unclassified - Protect accordingly.

¶1. (SBU) Per reftel, Embassy checked on the bona fides of the company Diamond Airborne Sensing and Managing Director Michael Feinig (registered with the USG as an arms broker). We carried out an on-site visit, met at length with CEO/founder Christian Dries and a team of company staff, and consulted the business surveillance database of the "Kreditschutzverband" (KSV). Diamond is a sizable company and a world leader in some general aviation markets (including twin-engine aircraft), but the company admits it has had serious recent problems in complying with U.S. export control regulations and is revamping its corporate governance as a result.

Background on Diamond Airborne Sensing / Diamond Aircraft

¶2. (SBU) "Diamond Airborne Sensing" (DAS), founded in 2006, is a 100% subsidiary of "Diamond Aircraft Industries" (DAI). CEO Christian Dries and Managing Director Michael Feinig (the latter is named as "broker" in reftel) represent both companies. DAS has only 9 employees, but is embedded in its larger parent. DAS' main business is developing sensor applications for aircraft, which they also market after construction by DAI. In addition, DAS operates its own sensor-equipped aircraft on demand for customers such as police and television broadcasters. Most of Diamond's leased aircraft are currently used for "geo-mapping", we were informed. Dries said that government clients account for only a small fraction of Diamond's business, and more than three-quarters of the company's sales are currently to China, Russia and Thailand.

Aircraft Sale to Venezuela / Bangor Maine Interdiction

¶3. (SBU) As DTCC is aware, in November 2008 two Diamond DA-42 surveillance aircraft were impounded by DHS/CBP agents in Bangor Maine as they attempted to transit the U.S. en route to Venezuela (where the planes were to be delivered to official customers). Each plane had on board (for later mounting) a combined optical/infrared camera, the infrared component of which is an ITAR-controlled item but for which Diamond had no export license (nor is a U.S. license possible in the case of Venezuela). Diamond officials' reaction to the incident is detailed below; Post understands that DTCC issued a warning letter to Diamond (11 August 2009/Case 09-0000548) -- essentially closing the case for export control purposes -- but that DHS continues its investigation and will soon consider ultimate disposition of the impounded aircraft (DHS Office of Fines Penalties and Forfeitures /FPF).

¶4. (SBU) During Post's site visit, we raised the Venezuela/Bangor aircraft case with Diamond leadership and asked for the company's reaction and any steps it had taken to overhaul corporate governance/implementation of export control regulations. Diamond leadership maintained that the company leadership had acted in good faith in the Venezuela case, based on certification by a Swedish supplier (Polytech) that the dual camera did NOT contain

ITAR-controlled items (NOTE: Diamond showed us a copy of Polytech's certification; Diamond's argument is that Polytech had issued an erroneous certification, since a French-made infra-red camera inside Polytech's assembly is apparently ITAR-controlled).

15. (SBU) Supplier error notwithstanding, Diamond officials said the Venezuela/Bangor case had been a "wake up call" to the company's compliance shortcomings and that the company had recently fired the then-manager of Diamond Airborne Sensing for his faulty and irresponsible handling of the case. (NOTE: a Diamond headquarters representative apparently denied to CBP that the aircraft were for sale to Venezuela; we do not know if this was the now-fired manager). Dries and Feinig admitted that the company had "under-estimated" export control compliance requirements as it made the transition from being a light aircraft producer to an integrator of aircraft and sophisticated optics/electronics.

16. (SBU) Besides firing its line manager, senior Diamond management said the company had restructured its overseas sales program to bring stronger regional partners on board. For the U.S. market, Diamond has recently engaged U.S. company Aurora Flight Sciences (headquartered in Manassas, VA) to manage its compliance policy.

Ownership / Business Database Information
- - - - -

17. (SBU) Despite its size, Diamond remains a "family company," wholly owned by Mr. Dries. Like other aircraft manufacturers, the company is highly dependent on external financing. According to the KSV database, DAI and DAS now depend entirely on external funds and the profit situation is negative; KSV assigns Diamond a "below average" rating compared to other Austrian companies in the aircraft industry. Dries said aircraft sales are poor, given the current

economic crisis, but that Diamond has a strong product portfolio and is well poised to take market share from bankrupt manufacturers.

COMMENT
- - - - -

18. (SBU) Diamond is a sizable and (until the current crisis) successful aircraft maker which has shown strong regulatory management in non-export control areas such as safety/registration (Diamond's aircraft are among the very few worldwide which are certified by both U.S. and European civil aviation authorities). The conduct of at least one key Diamond manager (now apparently fired) in the Venezuela/Bangor aircraft case was in clear violation of U.S. export control law and regulation (even if Diamond acted on an erroneous supplier certification). Based on their own statements, Diamond's owner and senior management appear to have responded to this "wake-up call."

HOH